How Public-Private Partnerships Can Deliver Value for Metro

The Construction Network
November 2020

Office of Extraordinary Innovation

How

Public-Private Partnerships
Can Deliver Value for Metro
Which is a P3?

- Metro ExpressLanes DBOM
- CNG Bus Fueling
- Contracted Bus Service
- Metro’s Advertising Contract
Public-Private Partnerships (P3)

We All Know What a P3 Is, Right?

> **Collaboration** between a public agency and a private company to **deliver a public service or facility**

> Each party **shares its key skills** and takes on the risks it is **best able to manage**, leading to benefits such as cost savings and project acceleration
What it is, What it isn’t

**What it is / does**
- A P3 can leverage the private sector’s skills and financing
- A P3 can provide a mechanism to share in the risks and rewards of a project
- A P3 could incentivize innovation and long-term performance

**What it is not / does not do**
- A P3 is **not** a new source of revenue
- A P3 **does not** change the ownership of the assets; Metro will retain the ownership
- A P3 model **does not** necessarily suit all projects
Why Public Private Partnerships?

But *Why* use a Public-Private Partnership?

- Private-sector expertise, innovation, & rigor
- Certainty, risk, and performance
- Whole-of-life cost considerations
Metro P3 Principles

> **Public interest is paramount** – The top priority is securing greater value than a fully public approach

> **Value for money must be clear** – The *actual financial value* of the P3 must be clear, compared to a public model

> **Process must be fair and transparent** – Appropriate documentation, public notice and comment, full competition

> **Public ownership and control** – Private role is limited by public ownership and oversight with clear accountability mechanisms
Common P3 Misconceptions

> P3s **DO NOT privatize public resources.** The public retains ownership and oversight of their investments.

> P3s **DO NOT lead to public sector job losses.** Any Metro P3 must meet state and county workforce standards, and be governed by Labor agreements.

> **Public services DO NOT take a backseat** to private sector profits. Projects and performance agreements are designed to maximize public benefit.

> Smart P3s **DO NOT exclude small and local contractors.** P3s can and do include SBE and DBE requirements.
Metro Procurement Approaches

Metro has prior experience with several procurement models including DB, DBOM, and DBF (explored for Gold Line).

> Why would Metro consider new delivery models beyond DBB and DB?
> Why would Metro consider private involvement in transit operations and maintenance?

Metro Regional Connector
DB

Metro ExpressLanes
DBOM

Gold Line
DBF
Potential P3 Benefits

> **Faster Project Delivery Timeframes**
  Accelerate construction of high priority projects by compressing and overlapping project sequences

> **Allows Greater Creativity & Technology Access**
  Use of advanced technologies or proprietary methods that are not generally available through standard procurement

> **Creates New & More Flexible Access to Financing**
  New sources of private debt and equity can be structured to be more flexible and minimize costly project risks
Potential P3 Cost Savings

> **Construction & Life-Cycle Cost Savings**
  Minimizes schedule and cost overruns and creates incentives for cost savings over the life of the project

> **Shifts Risks & Costs to Private Partner**
  Private assumption of project risks leads to more effective management and shields the public from potential costs

> **Improves Project Performance**
  Performance and accountability for complex project tasks with built in financial incentives and penalties
How is Value Actually Delivered?

> **Integrated Project Scope**
  Opportunities for design and implementation efficiencies

> **Performance Based Contract**
  Performance requirements vs. technical specifications

> **Skin in the Game**
  Private partner contributes financial equity, which is at risk over the life of the project
Typical Private Sector Roles in a DBFOM

- Project design/engineering
- Financial/cash flow
- Construction and project management
- System performance during operations
- Facility management and long term maintenance
Impact of Contract Structure

P3 Contract Structure

- DB Provider
- O&M Provider
- Developer / Special Purpose Vehicle
- Equity Provider
- Lenders/Debt Providers

Oversight and Direct Management

Payments

Contracts

Sales Tax Revenues & Bond Proceeds

Availability Payments

Project Agreement (P3 Contract)

Project Funds

Debt Service / Equity Return

Bank Loans
- Private Offerings
- TIFIA
- PABs
**The Value of Capital At-Risk:** When a private firm invests its own equity into a project, it creates incentives for the firm to ensure **long-term quality & performance** as capital is repaid.

### $1 Billion Capital Project

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<th>Traditional Delivery</th>
<th>Public-Private Partnership</th>
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<tbody>
<tr>
<td>$400,000,000</td>
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<td>+ $600,000,000</td>
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<td>• Metro Cash, Grants, &amp; Sales Tax Bond Proceeds</td>
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<td>• Private Debt Proceeds (Bank Loans, Private Debt), repaid via Availability Payments</td>
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<td>• P3 Equity, repaid via AP after P3 Debt</td>
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<td>• Total Capital Cost</td>
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P3 Incentivizes Performance

> Metro makes Availability Payments to the Developer when the facility is “available” for regular use, and if predetermined performance standards are met.

**SATISFACTORY PERFORMANCE**
Developer uses APs to secure financing for O&M costs and construction cost repayment

**COST OVERRUN**
Absorption of cost overrun by providers of at-risk capital (equity & debt) incentivizes quality performance

**POOR PERFORMANCE**
AP performance deduction due to noncompliance incentivizes quality performance through at-risk capital
P3 Business Case Development Process

Step 1: Project Screening & Selection
Projects identified through evaluation of Unsolicited Proposals or internal staff screening

Step 2: Qualitative Project Assessment
Project characteristics evaluated for key risks & opportunities
*Requires a project concept alternative & major project characteristics to be defined*

Step 3: Market Sounding
Interviews of P3 industry participants to evaluate potential market interest & gather information about project risks & opportunities

Step 4: Project Cost Report
Initial project Lifecycle Cost Report covering construction, O&M, & rehabilitation/SGR
*Requires project level of design minimum of 5-10 percent. Greater design desirable for more complex or risky projects*

Step 5: Project Risk Assessment
Project’s risks across all lifecycle phases identified & evaluated
Step 6: Value-for-Money & Financial Analysis

Delivery of the project is compared under Design-Build & P3 scenarios to determine which offers the best value. Analysis of key value drivers & optimal financial structuring.

Step 7: Project Funding & Affordability Assessment

Final procurement strategy established for Best-Value delivery method of final project scope. Requires selection of Locally Preferred Alternative.

Step 8: Recommend Best-Value Procurement Strategy

Performance & technical specifications for each stage of the project are finalized.

Step 9: Final Project Performance Specs

Final P3 RFQ and RFP issued. Requires completed NEPA/CEQA, & funding to be identified.

Step 10: Draft P3 Procurement Package
Metro Potential P3 Projects

Metro has two projects under development as a P3

1. Sepulveda Transit Corridor (Pre-Development Agreement)

2. West Santa Ana Branch LRT P3
Metro planned delivery: Managed lanes through Sepulveda pass; New rapid transit connection between Van Nuys/Orange Line BRT and Purple/Expo Rail Transit, eventually extended to LAX
- $9.8 billion total funding; $5.7 for Valley-Westside transit
- Managed lanes groundbreaking in 2024, delivery in 2026; 2033 delivery of Valley-Westside transit; 2048 delivery of Westside-LAX transit

Unsolicited Proposal analysis supports P3 transit delivery
- UPs indicate significant opportunities for innovation to optimize project delivery, cost, and performance
- Early contractor involvement to support balancing of constructability, performance, affordability, and project risk

No significant projected P3 benefit to Metro for Managed Lanes element, compared to baseline approach
Pre-Development Agreement

P3 Project to be Developed via a Preliminary Development Agreement (PDA)

- PDA offers right of first negotiation to construct (and operation/maintain) upon achievement of project feasibility (some work at-risk)
- “Off-ramps” with technical work products at various development stages

Factors supporting use of PDA

- Given complexity, size and current status, a PDA approach could allow Metro to more efficiently develop and refine a feasible scope
- Supports balancing of all project goals (access, ridership, throughput, travel time savings, etc.) with affordability limitations and project risk
- Could help accelerate overall project delivery
West Santa Ana Branch LRT

> Metro planned delivery: LRT delivered in two phases, working south to north
  - $4 billion ($2015) Measure M funding allocation
  - Groundbreaking in ~2022; Delivery in ~2028 (Phase I) & 2041 (Phase II)

> Unsolicited Proposal analysis supports P3 delivery
  - Metro received proposals for different P3 models, both of which combine phases and show evidence of potential cost savings and project acceleration
  - Outstanding affordability challenges due to early operations & complex scope, compounded by programmed cash flows

> Innovative procurement to incorporate scope and phasing
  - Variable project scope to maximize acceleration within funding constraints
Questions?